NASHVILLE DISTRICT MANAGEMENT CORPORATION, INC.

FINANCIAL STATEMENTS

December 31, 2010 and 2009

NASHVILLE DISTRICT MANAGEMENT CORPORATION, INC.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Nashville District Management Corporation, Inc.
Nashville, Tennessee

We have audited the accompanying statements of net assets of Nashville District Management Corporation, Inc. (a nonprofit organization), a component unit of the Metropolitan Government of Nashville and Davidson County, Tennessee as of December 31, 2010 and 2009, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Nashville District Management Corporation, Inc. as of December 31, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 2, 2011, on our consideration of Nashville District Management Corporation, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Management's discussion and analysis on pages 4 through 6 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements of Nashville District Management Corporation, Inc. taken as a whole. The additional information included in the report (shown on page 15) is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Frasier, Dean & Howard, PLLC

March 2, 2011

NASHVILLE DISTRICT MANAGEMENT CORPORATION, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2010

The following Management's Discussion and Analysis ("MD&A") of the Nashville District Management Corporation, Inc.'s (the "NDMC") financial performance provides an introduction to the financial statements for the year ended December 31, 2010. The information contained in this MD&A should be considered in conjunction with the information contained in the NDMC's financial statements.

OVERVIEW OF THE FINANCIAL STATEMENTS

The NDMC's financial statements are prepared on the accrual basis of accounting in accordance with generally accepted accounting principles promulgated by the Government Accounting Standards Board. Revenues of the NDMC are recognized when earned, not when received. Expenses are recognized when incurred, not when paid. Capital assets are capitalized and are depreciated over their estimated useful lives. See the notes to the financial statements for a summary of the NDMC's significant accounting policies.

Following this discussion are the basic financial statements of the NDMC, together with the notes, which are essential to a full understanding of the data contained in the financial statements. The NDMC's basic financial statements are designed to provide readers with a broad overview of the NDMC's financial status.

The *Statement of Net Assets* presents information on all of the NDMC's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets may serve as a useful indicator of the NDMC's financial position.

The *Statement of Activities* presents information showing the change in the NDMC's net assets during the fiscal year. All changes in net assets are reported as soon as the underlying event occurs, regardless of timing of related cash flows. Thus, revenues and expenses are recorded and reported in this statement for some items that will result in cash flows in future periods.

The *Statement of Cash Flows* relates to the flows of cash and cash equivalents. Consequently, only transactions that affect the NDMC's cash accounts are recorded in this statement.

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

FINANCIAL HIGHLIGHTS

Substantially all the NDMC's operating revenue is from property-based assessments within a defined Central Business Improvement District ("CBID"). Consistent with the State enabling legislation, property owners representing more than 50% of the total property owners in the CBID and more than 2/3 of the assessed value signed petitions agreeing to the assessment. Following a public hearing, the Metropolitan Council of Nashville and Davidson County established the CBID by an ordinance, with the power to levy assessment on property. Under terms of a Memorandum of Agreement between the Metropolitan Government of Nashville and Davidson County and the NDMC, funds generated by this special assessment are collected with the regular property taxes and transferred to the NDMC to fund services and initiatives that support and enhance the economic environment of the CBID.

NASHVILLE DISTRICT MANAGEMENT CORPORATION, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
December 31, 2010

FINANCIAL HIGHLIGHTS (Continued)

	2010	2009
Revenues:		
Program revenues:		
Charges for services	$ 1,470,354	$ 1,195,131
General revenues:		
Contributions	57,120	57,120
Other income	40,855	40,680
Total revenues	1,568,329	1,292,931
Expenses:		
Program expenses:		
Program management fees	1,474,912	1,200,441
Management and general	21,038	19,983
General expenses:		
Non-cash lease expense	81,864	81,864
Total expenses	1,577,814	1,302,288
Decrease in net assets	$ (9,485)	$ (9,357)

The operating revenue from the property tax assessment reported for the period ended December 31, 2010 is consistent with management expectations and that reported for the period ended December 31, 2009. The assessment revenues from the CBID are materially consistent with the ordinance established by the Metropolitan Council for 2008 through 2017 which expanded the geographic area and assessment rate.

Similarly, the program operating expenses reported for the period ended December 31, 2010 are consistent with those reported for the period ended December 31, 2009. As is reported in the accompanying notes to the financial statements, the NDMC provides substantially all of the support and services to its constituents through a management contract with the Nashville Downtown Partnership, Inc. Therefore, other than necessary administrative expenses, the remainder of the operating costs are incurred as a part of this contract.

As mentioned above, the net assets of the NDMC represent the difference between its assets and its liabilities at a point in time. A change in the net asset balance from one year to the next is typically a result of the excess of revenues over expenses for the time period, or in some cases the excess of expenses over revenues. In most years, the NDMC will not experience a significant change in its net assets, as substantially all of its available revenue is designed to be utilized immediately to provide services to its target area. For the year ended December 31, 2010, and much like prior years, the NDMC experienced a decrease in net assets. This was due to the annual depreciation expense recognized on the capital (fixed asset) acquisitions incurred related to its office space.

NASHVILLE DISTRICT MANAGEMENT CORPORATION, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
December 31, 2010

FINANCIAL HIGHLIGHTS (Continued)

	2010	2009
Current and other assets	$ 243,014	$ 198,722
Capital assets	9,862	18,125
Total assets	252,876	216,847
Other liabilities	(239,848)	(194,334)
Net assets:		
Invested in capital assets	9,862	18,125
Unrestricted	3,166	4,388
Total net assets	$ 13,028	$ 22,513

OTHER ISSUES

Management is not aware of any facts or conditions that are expected to have a significant impact on either the NDMC financial position or the results of its operations after the reporting date. A further discussion of the significant business relationships of the NDMC can be found in the accompanying notes to the financial statements.

Respectfully submitted,

Thomas Turner
Assistant Treasurer
March 2, 2011

NASHVILLE DISTRICT MANAGEMENT CORPORATION, INC.
STATEMENTS OF NET ASSETS
December 31, 2010 and 2009

	2010	2009
Assets		
Current assets:		
Cash and cash equivalents	$ 239,985	$ 195,693
Prepaid expenses	3,029	3,029
Total current assets	243,014	198,722
Capital assets:		
Leasehold improvements	135,512	134,290
Furniture and equipment	43,599	43,599
Computer equipment	2,000	2,000
Total capital assets	181,111	179,889
Less accumulated depreciation	(171,249)	(161,764)
Total capital assets (net of accumulated depreciation)	9,862	18,125
Total assets	$ 252,876	$ 216,847
Liabilities and Net Assets		
Liabilities:		
Current liabilities:		
Accounts payable-Nashville Downtown Partnership, Inc.	$ 203,822	$ 155,336
Deferred revenue	36,026	38,998
Total current liabilities	239,848	194,334
Total liabilities	239,848	194,334
Net assets:		
Invested in capital assets	9,862	18,125
Unrestricted	3,166	4,388
Total net assets	13,028	22,513
Total liabilities and net assets	$ 252,876	$ 216,847

See accompanying notes to the financial statements.

NASHVILLE DISTRICT MANAGEMENT CORPORATION, INC.
STATEMENTS OF ACTIVITIES
For the Years Ended December 31, 2010 and 2009

	2010	2009
Operating revenues:		
Charges for services	$ 1,470,354	$ 1,195,131
Operating expenses:		
Program management fees	1,474,912	1,200,441
Management and general	21,038	19,983
Total operating expense	1,495,950	1,220,424
Operating loss	(25,596)	(25,293)
Nonoperating income (expense):		
Contributions	57,120	57,120
Other income	40,855	40,680
Non-cash lease expense	(81,864)	(81,864)
Total nonoperating income	16,111	15,936
Change in net assets	(9,485)	(9,357)
Net assets - beginning of year	22,513	31,870
Net assets - end of year	$ 13,028	$ 22,513

See accompanying notes to the financial statements.

NASHVILLE DISTRICT MANAGEMENT CORPORATION, INC.
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2010 and 2009

	2010	2009
Cash flows from operating activities:		
Cash received for services	$ 1,467,382	$ 1,234,129
Cash payments to suppliers for goods and services	(1,437,979)	(1,190,061)
Net cash provided by operating activities	29,403	44,068
Cash flows from noncapital and related financing activities:		
Cash received from contributors	15,000	15,000
Net cash provided by noncapital and related financing activities	15,000	15,000
Cash flows from capital and related financing activities:		
Purchases of capital assets	(1,222)	-
Net cash used in capital and related financing activities	(1,222)	-
Cash flows from investing activities:		
Interest income	1,111	936
Net cash provided by investing activities	1,111	936
Net increase in cash and cash equivalents	44,292	60,004
Cash and cash equivalents - beginning of year	195,693	135,689
Cash and cash equivalents - end of year	$ 239,985	$ 195,693

See accompanying notes to the financial statements.

NASHVILLE DISTRICT MANAGEMENT CORPORATION, INC.
STATEMENTS OF CASH FLOWS (CONTINUED)
For the Years Ended December 31, 2010 and 2009

	2010	2009
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	$ (25,596)	$ (25,293)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	9,485	9,357
Changes in operating assets and liabilities:		
Accounts payable	48,486	21,006
Deferred revenue	(2,972)	38,998
Net cash provided by operating activities	$ 29,403	$ 44,068

See accompanying notes to the financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. Nashville District Management Corporation, Inc. (the "Organization") was established in 1998 as a not-for-profit organization to administer special assessment revenues collected by the Metropolitan Government of Nashville and Davidson County, Tennessee ("Metro") for the Nashville Central Business Improvement District ("CBID") under a memorandum of understanding with Metro. The agreement may be terminated by Metro upon thirty days notice. The assessments collected are to be used to make improvements to CBID and to provide services within CBID. Accordingly, the Organization is considered a component unit of Metro.

The financial statements of the Organization have been prepared using the accrual basis of accounting. Based upon the criteria set forth in Governmental Accounting Standards Board ("GASB") Statement No. 14, *The Financial Reporting Entity*, Metro has determined that the Organization is a component unit due to it being fiscally dependent on Metro.

Cash Equivalents

The Organization considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. The Organization maintains its deposits in financial institutions at balances that, at times, may exceed federally insured limits.

Capital Assets

Capital assets are reported at cost at the date of purchase, at fair market value at the date of gift, if the value is readily determinable, or other reasonable basis, as determined by management, if such value is unknown. Depreciation is calculated using the straight-line method to allocate the cost of the assets, as so determined, to operations over their estimated useful lives, which range from three to seven years.

Taxation

The Organization is exempt from taxation under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision has been made for federal income taxes in the accompanying financial statements. The Organization has also been classified as an entity that is not a private foundation within the meaning of Section 509(a) and qualifies for deductible contributions as provided in Section 170(b)(1)(A)(vi).

Revenue Recognition

Charges for services relates to revenue under the Organization's contract with Metro and is generally recognized as revenue when received or as deemed payable by Metro.

NASHVILLE DISTRICT MANAGEMENT CORPORATION, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2010 and 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Subsequent Events

The Organization evaluated subsequent events through March 2, 2011, when these financial statements were available to be issued. The Organization is not aware of any significant events that occurred subsequent to the statement of net assets date but prior to the filing of this report that would have a material impact on the financial statements.

NOTE 2 – CASH AND CASH EQUIVALENTS

The Organization's unrestricted cash and cash equivalent bank balances totaling $239,985 and $195,693 at December 31, 2010 and 2009, respectively, represent time deposits with banks. All the cash deposits are in a single financial institution and are carried at cost plus interest which approximates market. The carrying amount of cash deposits is separately reported as cash in the accompanying statements of net assets. These deposits are insured up to the federal depository insurance coverage level. The Organization is authorized by its board of directors to make deposits into various checking, savings, and money market accounts.

NOTE 3 – COMMITMENTS AND CONTINGENCIES

The Organization leases office space under a noncancelable operating lease which expires May 2012. The space is paid for and used by Nashville Downtown Partnership, Inc. (Note 5), a related nonprofit organization. In connection with the lease, the lessor provided reduced rent totaling $42,120 during 2010 and 2009 that has been reflected in the accompanying financial statements as contributions, with a corresponding charge to non-cash lease expense. Under the terms of the lease, the lessor will continue to provide reduced rent of similar amounts each year of the lease. The lease provides for additional rent to be payable in the event property taxes and/or building operating costs increase from base year amounts. Rent expense totaled $81,864 for the years ended December 31, 2010 and 2009, respectively. Future minimum lease payments required under the lease as of December 31, 2010 are as follows:

Year ending December 31,	
2011	$ 47,944
2012	20,204
	$ 68,148

NOTE 4 – CAPITAL ASSETS

Capital assets and related accumulated depreciation activity for the year ended December 31, 2010 was as follows:

	Balance 12/31/2009	Additions	Retirements	Balance 12/31/2010
Capital assets:				
Leasehold improvements	$ 134,290	$ 1,222	$ -	$ 135,512
Furniture and equipment	43,599	-	-	43,599
Computer equipment	2,000	-	-	2,000
Total capital assets	179,889	1,222	-	181,111
Less accumulated depreciation:				
Leasehold improvements	(117,319)	(8,689)	-	(126,008)
Furniture and equipment	(42,445)	(796)	-	(43,241)
Computer equipment	(2,000)	-	-	(2,000)
Total accumulated depreciation	(161,764)	(9,485)	-	(171,249)
Net capital assets	$ 18,125	$ (8,263)	$ -	$ 9,862

Capital assets and related accumulated depreciation activity for the year ended December 31, 2009 was as follows:

	Balance 12/31/2008	Additions	Retirements	Balance 12/31/2009
Capital assets:				
Leasehold improvements	$ 134,290	$ -	$ -	$ 134,290
Furniture and equipment	43,599	-	-	43,599
Computer equipment	2,000	-	-	2,000
Total capital assets	179,889	-	-	179,889
Less accumulated depreciation:				
Leasehold improvements	(108,834)	(8,485)	-	(117,319)
Furniture and equipment	(41,573)	(872)	-	(42,445)
Computer equipment	(2,000)	-	-	(2,000)
Total accumulated depreciation	(152,407)	(9,357)	-	(161,764)
Net capital assets	$ 27,482	$ (9,357)	$ -	$ 18,125

NOTE 5 – CONTRACTS AND AGREEMENTS

The Organization has entered into various contracts and agreements in order to carry out its purpose of administering special assessment revenue collected by Metro for the benefit of CBID. A brief description of such contracts and agreements follows.

Memorandum of Agreement with Metro – This agreement provides for the Organization to oversee program administration of CBID in accordance with Tennessee law. The Organization's duties and responsibilities under the agreement include, but are not limited to, providing services for improvement and operation of CBID through security enhancement, downtown marketing, and improving downtown beautification, sanitation, and maintenance. The agreement expires December 31, 2017. The agreement may be terminated by Metro upon thirty days notice.

Service Agreement – Effective January 1, 2008, the Organization entered into an agreement with Nashville Downtown Partnership, Inc., a related nonprofit organization, to perform all the duties and responsibilities for day-to-day management and implementation of services and improvements for the CBID, as defined in the Memorandum of Agreement with Metro, in exchange for substantially all revenues received from CBID assessments. During the years ended December 31, 2010 and 2009, the Organization recognized expense of $1,474,912 and $1,200,441, respectively, related to the agreement. Amounts payable under the agreement totaled $203,822 and $155,336 at December 31, 2010 and 2009, respectively. The agreement extends through December 31, 2017.

NOTE 6 – CONCENTRATIONS

The Organization receives substantially all of its revenue from its agreement with Metro through local government special assessments. Should Metro discontinue this arrangement, the Organization would no longer be able to continue its operations without obtaining alternative sources of revenue.

NOTE 7 – LINE OF CREDIT

During 2010, the Organization extended its line of credit with a financial institution. Borrowings under this agreement bear interest at a variable rate of LIBOR plus 3.6% adjusted quarterly with a minimum rate of 5% and require monthly payments of interest only. As of December 31, 2010 and 2009, the Organization had no borrowings on this line of credit. The amount available under the agreement is $100,000. The agreement matures in November 2011 and is guaranteed by Nashville Downtown Partnership, Inc.

ADDITIONAL INFORMATION

NASHVILLE DISTRICT MANAGEMENT CORPORATION, INC.
SCHEDULE OF EXPENDITURES OF METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY, TENNESSEE AWARDS
For the year ended December 31, 2010

Grantor Agency	Program Name	Award Period	Cash Expenditures
Metropolitan Government of Nashville and Davidson County, Tennessee	Nashville Central Business Improvement District	January 1, 2010 to December 31, 2010	$ 1,470,354

* The Schedule of Expenditures of Metropolitan Government of Nashville and Davidson County, Tennessee Awards is prepared using the accrual basis of accounting.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors of
Nashville District Management Corporation, Inc.

We have audited the financial statements of Nashville District Management Corporation, Inc. as of and for the year ended December 31, 2010, and have issued our report thereon dated March 2, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Nashville District Management Corporation, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Nashville District Managements Corporation, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Nashville District Management Corporation, Inc.'s internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Nashville District Management Corporation, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

We noted certain matters that we reported to management of Nashville District Management Corporation, Inc. in a separate letter dated March 2, 2011.

This report is intended solely for the information and use of the board of directors, management, others within the organization, and awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Frasier, Dean + Howard, PLLC

March 2, 2011